



# Department of Local Government Finance

## Circuit Breakers and Debt Submission Review

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# Agenda

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- Tax Rates and Circuit Breakers Review.
- Debt Applications Common Terminology.
- Best Practices for Submitting Debt Information.
  - Gateway Debt Management Application.
  - Budget Application.
- Importance of marking the payment date for when the debt is paid.
- Review of Debt Operating Balance Limits.



# Terminology and Tax Lingo



# Terminology – Tax Levy, MLGQ, and Rate

- Tax Levy – The certified annual lump sum amount of property taxes to be received. This is often a unit's largest source of revenue.
  - The tax levy is limited to the Maximum Levy. The Maximum Levy may be increased annually by the **Maximum Levy Growth Quotient** ("MLGQ") - formerly referred to as the AVGQ.
  - The task of fulfilling the lump sum tax levy is shared by all property owners in a taxing unit's jurisdiction. Each property owner's share of the tax levy is shared so that each taxpayer contributes to the lump sum levy relative to the value of their property.
- MLGQ – The percent growth that the levy is limited to grow by annually. Derived from the annual growth percent in non-farm personal income averaged over the past six years.
- Tax Rate – The rate used to determine the tax liability on a property. The rate is a function of the tax levy divided by the certified net assessed value of the taxing unit. Applied on each one hundred dollars (\$100) of a property's assessed value.



# Terminology – Taxing Units and Taxing Districts

- Taxing Unit – A political subdivision with the authority to impose (property) taxes.
- Taxing District – A geographic area that is composed of multiple unique taxing units. All property taxpayers within the same taxing district will pay the same tax rate. Taxing districts are an organizational structure created for property tax bill purposes.



# Terminology – Gross Assessed Value

- Gross AV
  - Determined by the local assessing official on an annual basis.
  - Value of a property that reflects the market value-in-use of the land and the improvements.
  - Gross AV approximates the market value-in-use of the property as compared to similar properties in the area.



# Terminology – Net Assessed Value

	Standard Homestead	Church	Government Owned Property
Gross Assessed Value	100,000	100,000	100,000
Homestead Deduction	45,000		
Supp. Homestead Deduction	19,250		
Mortgage Deduction	3,000		
Religious Exemption		100,000	
Government Exemption			100,000
Net Assessed Value	32,750	0	0

- Exemptions and deductions are calculated and applied locally to the Gross Assessed Value. These reductions reduce the property's tax liability without suppressing the property values.
- Annually, the county auditor certifies the net assessed value. ("CNAV")



# Terminology

- Appropriation – Represents the certified spending authority (by fund) for one year - often used interchangeably with term “Budget”.
- Lease Rental – Payment on a lease.
  - Equipment lease (example: a bus purchase)
  - A lease rental can also be for non-equipment lease; a Lease rental that is not an equipment lease is indicated by the administration of and payment to a Building Corporation.
- Common School Loan – debt obtained directly through DOE and deducted directly from monthly State Support payments.





# Terminology

- Pre-Budget Worksheet – Gateway budget application survey that collects information for helping to calculate the Department’s estimates for the upcoming year.
- Debt Management Application – The Gateway data entry application for reporting and storing information pertaining to individual debts.
- Debt Worksheet – Gateway application tool which retrieves linked debt information and debt payment listings.
  - The Debt Worksheet totals establish the line 5 (remaining expenditures current year), line 15 (incoming year totals), and line 18 of Form 4B for debt.



# Terminology

- Debt Closing Date – The date the final paperwork to secure the debt has been completed, usually coincides with the date the debt proceeds are released to the debtor. (I.e., the date the debt was incurred.)
- Original Amortization Schedule – Most often part of the official debt statement. An unaltered document prepared by a lending institution outlining debt payment due dates and payment amounts.
- Debt Fund Operating Balance – Estimated amount remaining in a debt fund at the end of the budget year after the required debt payments have been made.
- Circuit Breaker – Also known as tax caps. The amount of tax levy a unit is unable to collect due to a district(s) tax rates exceeding the 1%, 2%, or 3% cap.



# Terminology – Budget Order Preparation

- Annually, taxing units go through a process of advertising and adopting budgets, tax rates, and tax levies.
  - Once the Department receives the Certified Net Assessed Values from each county the Certified Net Assessed Value is applied to the calculation of the property tax levy and a final tax rate is certified.
  - As part of the certification process, the budget is also reviewed to ensure that the budget is fully funded with the available revenues.



# Terminology – The 1782 Notice

- The 1782 Notice is a summary of the results of the Department's review of the adopted budget, tax rate, and tax levy. A 1782 Notice is generated and sent (via email) to each taxing unit once the review has been completed by the Department. Each 1782 Notice has a 10-day window to respond and approve as-is or request updates.
  - Typical 1782 Notice update requests include, but are not limited to, application of a reduction resolution to the current year's budget, update of revenues, target tax rate adjustment, etc.
- Once the 10-day response window is fulfilled for all taxing units in a county, the Budget Order is released. The release of the Budget Order triggers the start of the property tax billing process for the incoming year in each county.



# Terminology – Certified Budget Order

2020 BUDGET ORDER					
Year: 2020					
County 32		Hendricks			
Unit: 0503		PLAINFIELD CIVIL TOWN			
	<u>Fund</u>	<u>Certified Budget</u>	<u>Certified AV</u>	<u>Certified Levy</u>	<u>Certified Rate</u>
0101	GENERAL				
		\$14,250,000	\$2,457,311,425	\$3,968,558	\$0.1615
Budget approved for displayed amount.					
Rate reduced to remain within statutory levy limitation.					
0182	BOND #2				
		\$954,861	\$2,457,311,425	\$899,376	\$0.0366
Budget approved for displayed amount.					
Rate reduced due to reduction of operating balance according to IC 6-1.1-17-22.					

The Certified Budget Order contains the certified budget, CNAV, levy, and tax rate for each taxing unit. Above is an excerpt of the Hendricks County Budget Order which includes the Town of Plainfield.



# Property Tax Rates and Circuit Breaker Impact

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# Introduction to Circuit Breakers

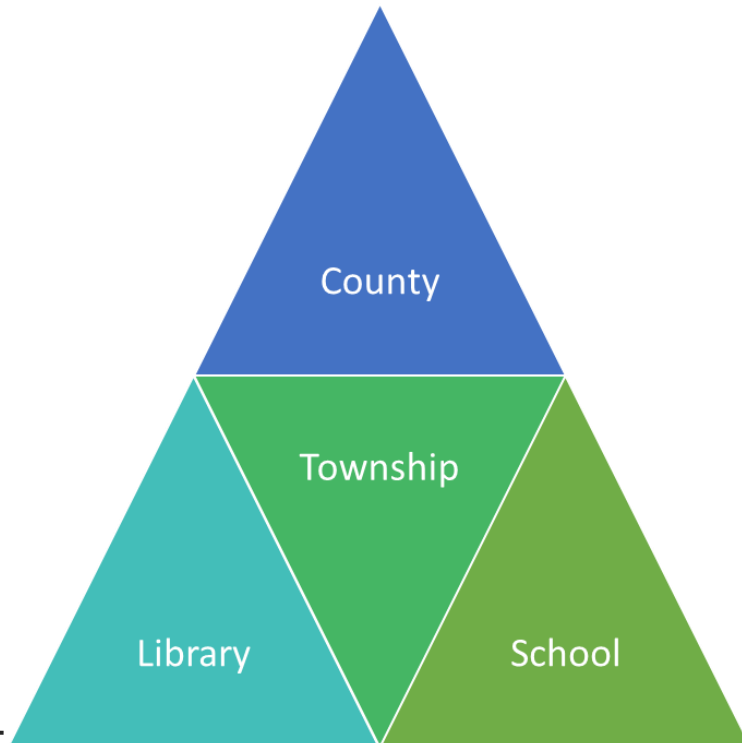
- Circuit breakers are a property tax credit to the property taxpayer (savings) but a decrease (loss) in revenue to the taxing units.
- Circuit Breaker impact is a function of the property tax rates in each taxing district.



# Taxing District

## Taxing District

\*May also include a City, Town, or Special Unit (e.g., Fire District or SWMD, if applicable)



- All local government units (taxing units) within a pre-determined geographic border constitute a Taxing District.
- For each property parcel, a taxpayer pays the total of all taxing units' tax rates within a geographic border of the taxing district
- The sum of all taxing units tax rates within a taxing district produces the taxpayers' overall property tax rate.





# Tax Bill – Gross Tax Liability

- A taxpayer's gross liability is a simple formula:

Net AV	Times	Taxing District Rate
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- Since the taxing district rate is comprised of multiple taxing unit rates, this formula can also be expressed as:

Net AV	Times	County Unit Rate
Net AV	Times	School Unit Rate
Net AV	Times	Township Unit Rate
Net AV	Times	City/Town Unit Rate
Net AV	Times	Library Unit Rate



# Assessed Value and Tax Rate

## Tax Rate Calculation Example:

Unit's property tax levy:	\$100,000
Unit's total net assessed value:	\$500,000,000
Calculated property tax rate:	0.0200
Amount a property owner would pay for every \$100 of assessed value:	2 cents

- The **Net Assessed Value (NAV)** represents the (net) sum of all property parcel values in each taxing district
- The task of fulfilling the tax levy is shared amongst all property owners in the taxing unit's jurisdiction so that *each taxpayer contributes to the lump sum levy relative to the value of their property.*
- The property owners tax liability which is derived from the **Tax Rate**, is the property owners share of the lump sum levy.
- The **Tax Rate** for each taxpayer is calculated by dividing the lump sum Levy by the (NAV/100)
- The **Tax Rate** is expressed in terms of "dollars per \$100" of Net Assessed Value.



# Tax Rate Calculation

## 2020 BUDGET ORDER

Year: 2020

County 32 Hendricks

Unit: 0503 PLAINFIELD CIVIL TOWN

	<u>Fund</u>	<u>Certified Budget</u>	<u>Certified AV</u>	<u>Certified Levy</u>	<u>Certified Rate</u>
0101	GENERAL	\$14,250,000	\$2,457,311,425	\$3,968,558	\$0.1615
Budget approved for displayed amount. Rate reduced to remain within statutory levy limitation.					
0182	BOND #2	\$954,861	\$2,457,311,425	\$899,376	\$0.0366

Budget approved for displayed amount.

Rate reduced due to reduction of operating balance according to IC 6-1.1-17-22.

Tax rate calculation example:  $\$3,968,558 \div (\$2,457,311,425 \div 100) = \$0.1615$



# Definition – Taxing Unit and Taxing District

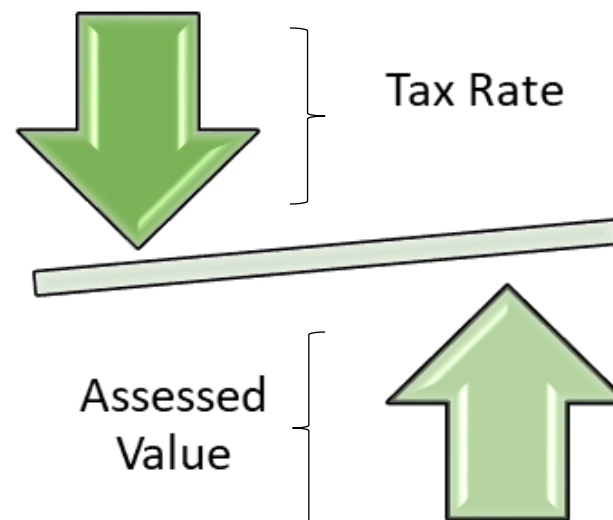
Taxing Unit	Certified Tax Rate
Hendricks County	.3027
Guilford Township	.0264
Plainfield Town	.7994
Plainfield Community School Corporation	.8594
Plainfield – Guilford Township Public Library	.0792
Hendricks County Solid Waste District	.0000

- Taxing District 012 is made up of the following units.
- The units above create the tax rate that will be used for calculating the gross and net tax bill. There may be other fees added to the tax bill that are connected to sewer services, participation in a conservancy district, or other special benefit taxes.



# Assessed Value Impact on Tax Rates

- If the lump sum levy is shared among taxpayers with higher assessed values the property tax rate for each taxpayer decreases.
- Simply put, as the assessed value increases the tax rate for each taxpayer decreases.
- Conversely, if assessed values decrease the tax rate increases.





# Circuit Breaker's Impact to Local Government

- The economic downturn of 2008 saw a record setting decline in the assessed values, which in turn caused tax rates to skyrocket.
- In 2009, the General Assembly amended the Indiana Constitution (**Article 10**) to limit or **cap the tax rates** as a percent of Gross Assessed Value. This capping function is referred to as the **Circuit Breaker**.
- If the sum of all tax rates, in a taxing district exceeds the capped rate, the taxing unit(s) may be unable to collect the full tax levy. This inability to collect the full levy is the **Circuit Breaker Impact**.

## Tax cap rates

Type of use	Cap Rate	Maximum tax bill for \$100,000 Property
Homestead	1 %	\$1,000
Rental Property or Farmland	2 %	\$2,000
Commercial	3%	\$3,000



# Circuit Breaker (Actual) Impact Report



Unit	Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
ADAMS COUNTY	County		\$10,021,771	\$10,000,400.34	\$17,194.86	\$293,864.98	\$311,059.84	\$9,689,340.50		
	RAINY DAY	0061	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
	GENERAL	0101	\$7,721,343	\$7,704,878.05	\$13,247.90	\$226,410.32	\$239,658.22	\$7,465,219.83	N	N
	2015 REASSESSMENT	0124	\$190,181	\$189,775.32	\$326.30	\$5,576.61	\$5,902.91	\$183,872.41	N	N
	CUMULATIVE COURT HOUSE	0590	\$57,815	\$57,691.70	\$99.20	\$1,695.29	\$1,794.49	\$55,897.21	N	N
	HIGHWAY	0702	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N

The CB Actual Report shows the 1%-2%-3% CB loss for all certified funds.





## Example - 1% CB Credit Calculation with Different Tax Rates

	Homestead Property (1% Cap) Example 1	Homestead Property (1% Cap) Example 2	Homestead Property (1% Cap) Example 3
Gross AV	100,000	100,000	100,000
Net AV	50,000	50,000	50,000
<b>Tax Rate</b>	<b>0.5000</b>	<b>2.5000</b>	<b>4.5000</b>
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	\$1000	\$1000	\$1000
CB Credit	0	\$250	\$1,250

This example shows three properties with identical gross AVs and net AVs however each example has a different CB profile.

As the tax rate increases, the taxpayer's CB credit also increases to ensure that the taxpayer does not pay more than the statutory maximum (i.e., the 1%-2%-3% cap).





# Circuit Breaker in Budgeting

- For taxpayers:
  - The Circuit Breaker creates a maximum tax liability. Once the gross tax liability exceeds the cap, a credit is applied.
  - The CB represents a savings.
- For taxing units:
  - The Circuit Breaker represents a portion of the certified levy that cannot be collected.
  - The CB represents a loss in revenue.



## Example - 1% CB Credit Calculation with Different Tax Rates

	Homestead Property (1% Cap) Example 1	Homestead Property (1% Cap) Example 2	Homestead Property (1% Cap) Example 3
Gross AV	100,000	100,000	100,000
Net AV	50,000	50,000	50,000
<b>Tax Rate</b>	<b>0.5000</b>	<b>2.5000</b>	<b>4.5000</b>
Gross Liability	\$250	\$1,250	\$2,250
Property Tax Cap	\$1000	\$1000	\$1000
CB Credit	0	\$250	\$1,250

The uncollectable amounts of the Circuit Breaker in each taxing district are shared proportionally by each taxing unit in the affected tax district.



# Circuit Breaker Impact Reports

- Both the anticipated and the actual impact of the Circuit Breakers are calculated by the Department.
- In July, the Department issues estimates for the anticipated impact of the Circuit Breakers for the incoming budget year for each taxing unit in the state.
- Utilizing the Department Estimated Circuit Breaker Impact Report allows taxing units to prepare a budget based on the estimated tax revenue that is expected to be collected.
- In April of the new fiscal year, after all tax bills have been calculated, the Department issues a follow up report, with the current year's actual impact of the Circuit Breakers.
- The Tax Cap Estimate Report and the Circuit Breaker Report (actuals)
- On the Department's website under County Specific Information  
<https://www.in.gov/dlgf/2339.htm>



# Circuit Breaker (Tax Cap Impact) Estimates

## 2020 Estimated Property Tax Cap Impact Report Bartholomew County

0000   BARTHOLOMEW COUNTY	Estimated Impact
Civil Max Levy Fund Credits	\$1,437,720
Debt Fund Credits	\$2,246
<b>Total Estimated Credits</b>	<b>\$1,439,965</b>

0001   CLAY TOWNSHIP	Estimated Impact
Civil Max Levy Fund Credits	\$720
<b>Total Estimated Credits</b>	<b>\$720</b>

0002   CLIFTY TOWNSHIP	Estimated Impact
<b>Total Estimated Credits</b>	<b>\$0</b>

0003   COLUMBUS TOWNSHIP	Estimated Impact
Civil Max Levy Fund Credits	\$112,200
Township Fire Credits	\$439
<b>Total Estimated Credits</b>	<b>\$112,639</b>

- In July, the Department will release a CB estimate for each unit.
- The Department's estimates factor in prior year actual CBs, the results of the prebudget survey, and the MLGQ.
- In July, the Department will not know which specific funds will be adopted by units in the fall. So, the estimates are summarized by max levy type (i.e., Civil, Fire, School, Debt or Rate Controlled).



# Tax Cap Impact Report – Over 65 and CB Credit

- Under IC 6-1.1-20.6-8.5 certain individuals may qualify for the Over 65 CB credit.
- The credit is subject to age, income, AV, and residency requirements.
- If eligible, the tax bill will not be able to increase by more than 2% from the previous year. The credit applied will equal the amount required to limit the tax bill growth.
- While referendum and some debt fund levies are exempt from Circuit Breaker impact, they are generally not exempt from the Over 65 CB credit.



# Circuit Breaker (Actual) Impact Report



Unit	Unit Type/Fund Name	Fund Code	Certified Levy	Levy Based on Abstract AV	Over 65 Circuit Breaker	1%/2%/3% Circuit Breaker	Total Circuit Breaker	Post-Circuit Breaker Levy	Exempt	Protected
ADAMS COUNTY	County		\$10,021,771	\$10,000,400.34	\$17,194.86	\$293,864.98	\$311,059.84	\$9,689,340.50		
	RAINY DAY	0061	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N
	GENERAL	0101	\$7,721,343	\$7,704,878.05	\$13,247.90	\$226,410.32	\$239,658.22	\$7,465,219.83	N	N
	2015 REASSESSMENT	0124	\$190,181	\$189,775.32	\$326.30	\$5,576.61	\$5,902.91	\$183,872.41	N	N
	CUMULATIVE COURT HOUSE	0590	\$57,815	\$57,691.70	\$99.20	\$1,695.29	\$1,794.49	\$55,897.21	N	N
	HIGHWAY	0702	\$0	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	N	N

The CB Actual Report shows the Over 65 CB loss for all certified funds.



# Circuit Breaker (Estimates vs Actuals)

The Department does not adjust a unit's budget based on the updated actual circuit breaker amounts; therefore, units are encouraged to reconcile their CB estimates with the actual CBs.

All units will fall into one of three distinct scenarios.

- Scenario #1: CB Estimate was higher than actual.
  - Budget is fundable and unit's cash balance will increase.
- Scenario #2: CB Estimate was equal to actual CB.
  - Budget is fundable.
- Scenario #3: CB Estimate was lower than actual CB.
  - Budget is not fundable and cash balance may decrease.



# Debt and Gateway





# Debt Management Submission Requirements


- IC 5-1-18-6 states the debt information must be provided either within 30 or 5 days, depending on the issuance date.
- **IC 5-1-18-6 Information report for bonds and leases**
- Sec. 6. A political subdivision that issues bonds or enters into a lease after December 31, 2005, shall supply the Department with a debt issuance report not later than:
  - (1) one (1) month after the date on which the bonds are issued or the lease is executed, if the bonds are issued or the lease is executed before October 1; or
  - (2) five (5) business days after the date on which the bonds are issued or the lease is executed, if the bonds are issued or the lease is executed after September 30.



# Gateway Debt Management – Type Designation

- When submitting the debt information for Gateway Debt Management it is important that the correct “type” of debt be marked.
- The debt worksheet (budget) is dependent on this designation for the information that is retrieved to populate the debt worksheet.
  - All debts marked as a lease will populate from the Lease Payments column.
  - All other debt types will populate from the period total plus trustee fees.

Type of Indebtedness: \* Required Field



Bond

Bond

Loan

Lease

Common School Fund Loan

Build America Bond

Qualified Zone Academy Bonds

Recovery Zone Facility Bond

Public Works Loan

Emergency Fire Loan

Bond Anticipation Notes

Qualified School Construction Bonds (QSCB)

Tax Anticipation Warrants (TAW's)

Claims and Judgments

\* Required Field



# Debt Submission Correction

- “Submitting” a debt in Debt Management locks the debt data so no changes can be made.
- To unlock (unsubmit for changes) a request to “unlock” for that specific debt(s) must be sent to Gateway - [support@dlgf.in.gov](mailto:support@dlgf.in.gov)
- Once confirmation is received from Gateway that a debt has been unlocked/unsubmitted changes may be made, and the debt must be resubmitted once all the changes have been entered.



# Debt Management Document Uploads

- IC code requires that in addition to the data entry submission completed in Gateway Debt Management units are also required to upload copies of the debt issuance reports and a copy of the Original Amortization schedule into the File upload section of Gateway Debt Management.
- The original amortization schedule required is a copy of the unaltered lending institution's repayment schedule, not to be confused with the amortization schedule from Gateway data entry.

The screenshot shows the Gateway Debt Management interface. At the top is a green navigation bar with links: Home, About, Account Settings, Help, and Logout. Below this is a breadcrumb trail: [Select Unit](#) > [Select Debt](#). A large red arrow points to the [File Upload](#) link. Below the link is a table with three columns: Bond Name Link, Retired, and Delete. The table contains three rows of data. At the bottom of the table is an 'Add New Debt' button.

Bond Name Link	Retired	Delete
<a href="#">First Mortgage Refunding Bonds, 2012</a>	<input type="checkbox"/>	<a href="#">Delete</a>
<a href="#">Waterworks Revenue Bond Series 1994</a>	<input type="checkbox"/>	
<a href="#">GO Bond of 2012</a>	<input type="checkbox"/>	

[Add New Debt](#)



# Debt Management Document Uploads

- **IC 5-1-18-7 Bond report requirements; uniformity; electronic submission**
- Sec. 7. (a) Except as provided by subsection (b), the debt issuance report required by section 6 of this chapter must be submitted on a form prescribed by the Department and must include the following information concerning bonds:
  - (1) The par value of the bond issue.
  - (2) A schedule of maturities and interest rates.
  - (3) The purposes of the bond issue.
  - (4) The itemized costs of issuance information, including fees for bond counsel, other legal counsel, underwriters, and financial advisors.
  - (5) The type of bonds that are issued.
  - (6) Other information as required by the department.
- A copy of the official statement and bond covenants, if any, must be supplied with this information.
- (b) A political subdivision or a person acting on behalf of a political subdivision shall submit the debt issuance report information described in subsection (a) to the Department electronically, in the manner prescribed by the department.



# Amortization Schedule Upload

- A copy of the original lending institution's amortization schedule is part of the required upload documents by the Department.
  - The Department accesses the Debt Management data entry submission and verifies the payment information matches the original amortization schedule.



# Appropriations and Payments Due

- As part of the Department Budget school information for review purposes the Department collects the debt fund expenditure history report for debt.
  - Debt expenditures made through July of the previous year through December of current year).
  - For pay 2022, July 2020 through (YTD) December 2021.
  - It is important that the total yearly expenditures do not exceed the total yearly appropriations for the debt fund.





# Debt Worksheet (Pre-Budget and Budget)

- On the Pre-Budget Worksheet, the active debts from the listing in Debt Management need to be linked to the budget application.
  - This selection for the Pre-Budget Worksheet should also roll over into the budget application (debt worksheet).
  - If there are new, anticipated or unlinked debts the first step will be to verify these debt are listed in Debt Management.
  - Once a debt is listed in Debt Management, the debt can then be linked to the budget as active for the incoming years' budget.
  - Step by step linking instructions can be found in the Gateway
    - User Guide <https://www.in.gov/dlgf/files/190701%20-%20Debt%20Worksheet%20User%20Guide.pdf>





# Debt Worksheet; Marking Payments

- It is important when selecting debt payments due to keep in mind when the funds for making the debt payment will be required
  - Property tax distributions take place only twice a year in **June** and **December**.
  - If a debt is marked as budgeted and paid July 15 the funds to pay a July 15 payment will not be received until the December distribution.
  - Pulling back the due date to when the funds are needed, and the debt payment is paid, generally is permissible and marking as paid June 30 vs July 15 (or Dec. 31 vs Jan. 15) will allow the funds for the payment to be budgeted and therefore disbursed in the June distribution.



# Debt Worksheet; Marking Payments

- When marking payments on the debt worksheet 5 different payments will be marked.
  - The next payment paid in the current year (i.e., July – Dec. 21).
  - The 2 payments paid in the incoming budget Year – (most often 2 payments (i.e., Jan. – Dec. 2022).
  - The 2 payments paid in the year following, the incoming budget year (i.e., Jan. – Dec. 2023).
  - \* Since Common School loan payments are deducted directly from the State support payments they should be marked as paid exactly when due.



# Marking Debt Payments on the Debt Worksheet



Selected Debt: First Mortgage Bonds Series 2019

Date	Period Total	Trustee Fee	Lease Pmts.	Total	Line 5 07/01/2020 to 12/31/2020	Line 15 01/01/2021 to 12/31/2021	Line 18A 01/01/2022 to 06/30/2022	Line 18B 07/01/2022 to 12/31/2022
7/15/2020			329,000	329,000	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1/15/2021			140,000	140,000	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7/15/2021			141,000	141,000	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1/15/2022			140,000	140,000	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7/15/2022			141,000	141,000	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

- Once a debt has been linked to the budget the payments due can be selected. The payments are selected by checking the applicable box for the time frame the debt will be paid.
- Pulling back the date to when the funds are needed, and the debt payment is paid generally is permissible and marking as paid June 30 vs July 15 (or Dec. 31 vs Jan. 15) will allow the funds for the payment to be budgeted and therefore disbursed in the June/Dec. distribution.



# Debt Worksheet; Operating Balance

Marking the additional (2) payments in the incoming budget year (i.e., Jan. – Dec. 2023) is also important since it establishes the allowable operating balance that may be levied and retained for future debt payments.

- IC 6-1.1-17-22 governs the amount of operating balance that taxing units may retain in a debt service fund.



# Debt, Allowable Operating Balances

- IC 6-1.1-17-22 states that each individual debt's allowable operating balance will be taken into consideration when calculating the sum of all debts' allowable operating balance.



# Debt, Allowable Operating Balances Post 2014

- For a debt originally incurred after June 30, 2014, the allowable operating balance is the lesser of:
  - 15% of the budget estimate for the debt for the year after the budget year; or
  - the debt payment to be made in the first six months of the year after the budget year.
  - \* The date of a refinanced debt that is considered for this calculation is the date the debt was originally incurred.



# Debt, Allowable Operating Balances Pre 2014

- For a debt originally incurred before June 30, 2014 the allowable operating balance is the lesser of:
  - 50 % of the budget estimate for the debt for the year after the budget year; or
  - the debt payment to be made in the first six months of the year after the budget year.
  - \* The date of a refinanced debt that is considered for this calculation is the date the debt was originally incurred.



# 15% Operating Balance Example #1

A debt service fund has one debt incurred after June 30, 2014.

In the 2022 budget year, the allowable operating balance will be based on payments due in 2023 (the lesser of 15% of the total of the following year's debt payments or the first debt payment to be made in the following year).

Example 1 Post June 30, 2014	15% calculation
First payment due in 2023	\$400,000
Second payment due in 2023	\$600,000
Total Payments due 2023	\$1,000,000
(multiplied by Op. Bal factor)	X 15%
Maximum allowable Operating Bal	<b>\$150,000</b> < \$400,000  \$150,000 is less than the first payment of \$400,000 so the allowable Op Bal is \$150,000





# 50% Operating Balance Example #2

A debt service fund has one debt incurred before June 30, 2014.

In the 2022 budget year the allowable operating balance will be based on payments due in 2023 (the lesser of 50% of the total of the following year's debt payments or the first debt payment to be made in the following year.

Example 2 Pre June 30, 2014	50% Calculation
<u>First payment</u> due in 2023	\$400,000
Second payment due in 2023	\$600,000
Total Payments due 2023	\$1,000,000
(multiplied by Op. Bal factor)	X 50%
Maximum allowable Operating Balance	\$500,000 > \$400,000  (\$400,000* first payment is less than \$500,000), so the allowable Op. Bal is \$400,000



# Operating Balance, Levy, and Tax Rate

- Since each debt's allowable operating balance is part of the calculation for determining the total levy for each debt fund, calculating each debt's allowable operating balance can help to determine a more accurate levy and tax rate estimate on your budget submission.

$$(\text{CNAV} \div 100) * \text{Tax rate} = \text{tax levy (or)}$$

$$\text{Tax levy} \div (\text{CNAV} \div 100) = \text{tax rate}$$



# Potential Action Items

- Contact your Budget Field Representative if you need additional assistance about topics in this presentation: i.e., Gateway Budget, Gateway Debt Management, Circuit Breakers.
- Review Debt payment dates and their correlation with receipt of June and December distributions.
- In April, review and reconcile your 2021 CB Estimate and your 2021 Actual CB amounts.
- Compare your 2020 Actual CB Amounts and 2021 Actual CB Amounts as you work on your 2022 estimate.



# Contact Us

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